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"SOVIET ECONOMIC ACTIVITIES IN NORTHERN KOREA"

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WORKING PAPER

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SOVIET ECONOMIC ACTIVITIES IN NORTHERN KOREA

Summary

Analysis of Soviet economic activities in northern Korea indicates USSR intent to develop northern Korea into a subsidiary industrial economy complementary to the underdeveloped Soviet Far East (east of Lake Baikal).

Ultimate Soviet aims of world communization will be served by the industrialization of the Far East. Northern Korea, firmly dominated by the Communists, is the only remaining area on the Far Eastern mainland (north of India) that is presently capable of contributing major industrial productivity towards furthering Soviet desires.

The Northern Korean industrial plant, constructed by the Japanese as an adjunct to their own war-making potential, possesses substantial capacity to produce iron and steel, a surplus of industrial chemicals, strategic mineral deposits, and a well-developed hydro-electric power system. In contrast to the destructive policy pursued by the Soviets in Manchuria, northern Korea suffered only limited damages to her industrial plant. Soviet control of northern Korea's economy and the Soviet policy of economic rehabilitation indicate an interest in northern Korea beyond its maintenance as a buffer area.

In view of Soviet stripping in Manchuria and China's desperate need for internal development, the relatively undamaged productive capacity of northern Korea is making and will continue to make a considerable economic contribution to the furtherance of Soviet aims in the Far East.

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-2-

1. Introduction: Korea under the Japanese:

Korea, under the Japanese, was employed up to 1931 as an economic bridgehead onto the Asiatic mainland, and served as the staging area for the push into Manchuria. With the outbreak of the "China Incident" (1937), Korea became, along with the greater industrial capacity of Manchuria, an important continental industrial base for supplying the Japanese war effort. This industrial development, superimposed on the basic agricultural life of Korea, benefited little the basic economy of the Korean people.

By 1940, Korea was contributing significantly to the Japanese war effort. The newly-developed iron and steel industry reached peak production in 1944 when over 2,500,000 tons of iron ore were mined, and over 500,000 tons of pig iron and 200,000 tons of ingot and shaped steel were produced. Non-ferrous metal refineries produced 12,000 tons of aluminum from imported ores, and a considerable amount of copper, zinc, lead, and magnesium. The great chemical plant in Hungnam had a peak capacity of over 450,000 tons of nitrogen-containing fertilizers. Smaller chemical plants contributed another 100,000 tons of varied chemical products. The hydro-electric power system had a peak capacity of 2½ million kilowatts, while over 7½ million tons of coal (anthracite and lignite) were mined in a peak year. Various strategic minerals were found and mined in Korea. Graphite, tungsten, molybdenum, gold, silver, magnesite, pyrite, copper, and fluor spar were mined in appreciable amounts. Other rare minerals such as titanium, cobalt, and columbite were mined uneconomically in small quantities because of their

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-3-

military importance. The oil refinery in Wonsan had an annual capacity of 1,500,000 barrels, and a cracking unit capable of producing relatively high octane gas. The Korean agricultural economy provided Japan with rice and marine products in return for coarser grains from other parts of the Japanese empire.

2. Soviet aims in northern Korea

The advent of Soviet Occupation troops in the heavy industrial area north of the 38th parallel signaled a new phase in the development of northern Korea. Soviet economic policy in Korea initially involved removal of machinery and commodities in scarce supply within the Soviet Union. With establishment of a stable Communist-dominated Popular Front political system, the Soviets began to rehabilitate the northern Korea industrial capacity.

Soviet control of the reconstituted northern Korea industrial capacity assumes importance when the eastern Asiatic mainland is viewed as a whole. Korea was a lesser industrial area compared with either China Proper or Manchuria. However, Soviet removals and the disruptions of the civil war have so reduced the industrial capacity of Manchuria as to preclude any significant production within the next two years. China, finally at peace, must of necessity devote its economic effort towards rehabilitating its devastated internal economy. Northern Korea, however, suffered no lasting damage as a result of the Soviet Occupation. If the Soviets are to industrialize the Far East, an industrial base must be formed. Present analysis indicates that northern Korea is being utilized to contribute to these aims.

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-4-

3. Soviet economic activities in northern Korea:

Northern Korea, under Soviet Occupation and later-Soviet direction, has passed through three successive phases in its economic development. Although each phase overlaps to an extent with the preceding and following ones, each is distinct in its purpose. The first phase involved removal of material to the USSR, the second is an attempt on the part of the Soviets to rehabilitate the northern Korean economy, and the third and final phase will see the northern Korean economy integrated with the economy of the Soviet Far East.

A. 1st. Phase Soviet Removals (1945-1947)

The first year of the Russian Occupation of Korea was characterized by chaos throughout the northern Korean economy. The industrial plant capacity was reduced by continuous use and poor maintenance during the war, by Japanese demolition and Korean vandalism, and by Soviet removal of key items in some plants. The breakdown of civil control and the Soviet policy of supplying occupying troops with native foods caused serious famine in some areas. Persecution of Japanese technicians and Korean industrialists by over-enthusiastic Korean Communists eliminated leadership and direction of industry. Military usage by the Soviet Army of the Korean transportation system prohibited shipment of goods and materials. The occupation forces, further, absorbed the production of the few food processing and consumer goods factories capable of operation.

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-5-

Removals of industrial equipment to the USSR were not extensive. Highly selective in their looting, the Soviets took electrical equipment, the newest precision machinery, and stock-piled raw materials. The purpose and extent of Soviet removals in northern Korea is best demonstrated by a comparison with Manchuria. Soviet removal and damage to industrial installations in Manchuria was valued at \$900 million, an area where the Japanese had invested Yen 10-12 billion. Soviet removals from northern Korea, on the other hand, were estimated at only \$50 million whereas the Japanese investment (mostly in the north) was estimated at Yen 4.5 billion.* The divergencies of policy employed in the two areas has significance in that the Soviet desire to have an industrial area firmly oriented towards itself is apparent. Manchuria, potentially the most powerful economic area in north-east Asia was by treaty to return to a nation whose interests conflicted with those of the Soviet Union. Northern Korea, however, was scheduled for occupation by -- and thus orientation to -- the USSR. Realistically, the Soviets removed from Manchuria that which might have fallen into the hands of their potential enemy, and preserved that in Korea of which they were sure.

It is not known what effects the recent change to a Communist-regime in China - Manchuria will have on Soviet economic efforts in Korea. The Soviets may shift economic emphasis to

* No completely accurate figure can be arrived at in computing Japanese investments in either Korea or Manchuria.

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-6-

economically-richer China.

B. 2d. Phase - Rehabilitation of the northern Korean economy: (1947-1949)

By late 1946, some order began to emerge from the chaotic conditions of the early Soviet Occupation. In December of that year a Planning Bureau was set up by the Korean Interim People's Committee, and a National Economic Plan for 1947 was announced. Various laws and "decisions" (ordinances) of a Socialist nature were promulgated. Among these were: the Land Reform Law, the Nationalization of Industry, Sex Equality Law, new tax regulations, and other socio-economic laws. Planned recovery was in progress.

Soviet participation in this early recovery is evident. The Soviets concentrated early efforts on building up the People's Army. Early Soviet imports into Korea were mostly military equipment, trucks, and petroleum. The large Japanese-built arsenal in Pyongyang is reported to have started limited production of Soviet weapons. (Whether this represents actual production or just assembly is not known).

The civilian sector of the economy was not neglected. During 1947, imports of bituminous coke, reconditioned machinery, petroleum, and foodstuffs, were reported as being received in northern Korea. Communist newspaper accounts of Soviet shipments to northern Korea state that 50% of total imports in 1946 and 80% of total imports in 1948 consisted of items for industrial use. Soviet ships were engaged in moving northern Korean export commodities to Hongkong and other Far Eastern ports, returning

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-7-

with goods needed in the economic rehabilitation of Korea. The highway system of the north was considerably improved and a Soviet Railway Operating Regiment was brought in to improve railway operation. Korean students were sent to study in Soviet technical schools, and Soviet engineers and administrators were active in most northern Korean industrial enterprises.

Soviet aid to northern Korea was formalized in the March 1940 Economic and Cultural Agreement. This treaty provided for Soviet export to Korea of petroleum, machinery, locomotives, and essential raw materials in return for Korean "surplus" metals and chemicals. A 212 million ruble loan (US \$32 million purchasing power in the USSR) was extended, and provisions were made for more extensive exchange of technicians and technical knowledge.

C. 3d. Phase - Northern Korea's integration with a Soviet Far Eastern economic bloc: (1949-)

Northern Korea's industrial plant represents a positive asset to the presently industrially-poor north-east Asia area. The industrial plant is organized for the production of semi-finished and finished metals and chemicals. The basic deficiencies in petroleum and bituminous coal are being adequately met by the USSR. While Manchuria's potential is undoubtedly greater, for a number of years the USSR will have to depend on northern Korea as the industrial center of the Northeast.

Soviet exploitation of the northern Korean economy can be accomplished at little cost to the USSR, in view of the

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-8-

nature of the Korean economy. The heavy industrial plant, as erected by the Japanese, was constructed to meet the needs of an empire, not of Korea itself. Thus northern Korea, itself, does not possess the facilities to convert all its iron and steel production into consumer goods and machinery, or sufficient arable land to justify 450,000 tons of fertilizer production. The Soviet Union, then, may take a major share of the Korean industrial capacity, giving in return raw materials and consumer goods, without causing a serious strain on the Korean economy.

Reliable reports indicate that over 30% of the generated electric power is exported to Manchuria and the Soviet Maritime provinces. The Soviets receive more than 50% of the output of the iron and steel and nitrogenous chemical industries.

4. Methods of Soviet control in economic fields:

Presence of Soviet Occupation forces in northern Korea insured direction of the economy along lines desired by the USSR. With withdrawal of troops in late 1948, the Soviets revealed the various methods by which they intended to continue economic control. It is believed that, through these control devices, the USSR is able to direct Korean economic activity and policy along lines most favorable to itself.

A. Soviet control of the northern Korea polity

The USSR possesses its most effective economic control in the political device of the Communist-sponsored and organized government of the "Democratic People's Republic of Korea." Formed

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-9-

under the "benign" auspices of the Russian Army, the government was built around a hard core of Moscow and Yenan trained Korean Communist. Dissenters to the regime remaining in the north have been forced underground and risk ruthless suppression if they are revealed while the more vocal and active rebels have fled to the sanctuary of the south. Maintaining control by police-state methods, the government has faithfully followed Soviet direction. Particularly evident are Communist inspired economic measures such as nationalization of industry, allotment of raw materials and finished production, confiscatory taxation, economic planning in terms of quotas to be filled, forced labor, and total collectivization.

B. Soviet organizations in northern Korea

Direct control of certain phases of the northern Korean economy was exercised by Soviet official and semi-official organizations during the occupation period which ended in late 1948. Since that time no further firm evidence has been received as to the continued presence of such organizations in the area. It is believed, however, that they continue to operate either overtly or under the cover of the Soviet Mission in northern Korea.*

Most prominent of these organizations, reported in 1948, was a branch of the Soviet Ministry of Trade. This agency, broken

* An unconfirmed report notes that MORTRANS, the Soviet-Korean joint stock transportation company, has taken over some of these duties.

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-10-

down into Import and Export sections, contracted for deliveries to the Soviet Union and arranged for terms of payment. In essence all northern Korean trade at the time was directly supervised by this agency. Functions of other Soviet government agencies also were performed by the branch office of the Ministry of Trade in Korea. Important among these were the recruitment of Korean laborers for work in the Soviet Kamchatka fisheries, control of banking and monetary matters, acting in an advisory capacity on budgetary matters, and as a propaganda agency.

C. Soviet advisers and technical assistance

The number of Soviet personnel active at present in northern Korea is estimated at between 4500 and 4700. Some 700 are engaged in non-military activities as advisers, diplomats, and security officials. In view of the trained personnel shortages within the Soviet Union itself, these figures lends emphasis to Soviet importance attached to northern Korea. Although the number engaged in technical and advisory activities in the northern economy is not known, their presence is often attested to in propaganda broadcasts from northern Korea, in connection with their duties and contributions to the economy. Through these men effective Soviet control of the Korean economy can be exercised.

During the first two years of USSR Occupation, Soviet technicians were present in most factories with any productive capacity. In the winter of 1947-48, the Soviets began withdrawing

-11-

their men and turned most managerial functions over to the Korean People's Committees and their Bureau of Industry. In those industries in which the Soviets had particular interests, such as gold mining, iron and steel plants, non-ferrous metal refineries, electric power plants, various chemical industries, and in the trading and transportation field, however, a Soviet civilian or officer was left as an "adviser" to the Korean plant authorities. The sending of "deserving" Korean youths to Soviet technical schools and the setting up within northern Korea of Soviet-run technical institutions has done much to insure a hard core of Soviet-oriented Koreans in economic fields in the future.

D. Joint Stock Companies

The most overt method of Soviet economic control in northern Korea is exercised through Soviet participation as owners in various Korean economic enterprises. The device known as the joint-stock company provides for joint Soviet and Korean control of management. Theoretically each nation possesses 50% of the stock in the company and has an equal voice in management, but actually through the presence of Soviet-Koreans serving as Korean members (and from recent revelations made by Yugoslavia concerning Soviet activities in similar organizations in their own economy), the Soviets probably exercise complete control.

Two such companies, formed in early 1947, are Mortrans, controlling all marine and motor vehicular transportation, and the Chosen Oil Refinery in Wonsan, the only crude oil refinery in Korea.

-12-

Due to the great dependence of the industrial economy on petroleum products and trade, Soviet participation in management of these two enterprises provides a significant degree of direct control over the development of northern Korean economic growth and progress.

B. Orientation of the economy towards dependence on the USSR

The economy of northern Korea is critically dependent on imports of certain commodities essential to heavy industrial production. The USSR controls and supplies the bulk of trade in these commodities with northern Korea and is able, by this means, to exercise a positive control over the development of the economy.

Major deficiencies of the northern Korea industrial system are petroleum and bituminous coal. Reliable reports indicate a steady flow of bituminous coal from Sakhalin is brought into northern Korean ports, and Soviet tankers bring in enough crude oil from Sakhalin to keep the Japanese built Wonsan refinery operating 3 months out of the year. Soviet shipping, active in the Hongkong - northern Korea trade in the past year, import finished petroleum products to run the northern military and industrial plant, consumer goods, textiles, medical supplies, and machines and parts in return for northern Korean marine and food products. It is interesting to note here that little or none of the production of the northern Korean industrial plant is shipped to Hongkong.

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-13-

The Soviets obviously are not underwriting the northern Korean economy for altruistic reasons. Russian export or entrepreneurial activities in connection with commodities in short supply within northern Korea works to the advantage of the Soviets if in turn they receive the products of the Korean industrial plant.

Additionally northern Korea is faced with the problem of Soviet pricing policy. This involves the sale of northern Korea products in the Soviet Union at artificially-low Soviet prices and the purchase by the satellite of Soviet goods at the going world price.

Although, due to internal shortages in the USSR, the Soviets are not able to meet all the demands placed upon them by the northern Korea economy, they have managed to provide sufficient essential imports to make possible a steady increase in northern Korean production of goods desired by the USSR.

5. Degree of realization of Soviet objectives:

Soviet guidance is reported to have produced tangible accomplishments in the economic rehabilitation of northern Korea. The presence of Soviet technical personnel and the Soviet-sponsored imports of needed raw materials and finished goods are believed to have raised production in most fields to a level equal to that of pre-war (1939). It must not be assumed that northern Korea is presently able to fulfill the peak war-time capacity attained under the Japanese in 1944. The necessity to obtain replacement parts for Japanese manufactured equipment, the exploitative and uneconomical workings of mineral deposits, and the continuing shortage of enough technicians acquainted

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-14-

acquainted with the problems of the northern Korean industrial plant are all conditioning factors that must be considered. If, however, Soviet aims envisage continued emphasis in northern Korea, these deficiencies could be met in part by the machinery taken from Manchuria, Soviet mining equipment, and intensive Soviet technical assistance.

A good indication of the degree of recovery is given in the trade statistics released by the northern Korean government. Trade between northern Korea and the USSR was 74 million rubles in 1946, 143 million rubles in 1947 and 264 million rubles in 1948. Target level for 1949 is 337 million rubles.*

6. Significance of Soviet economic control in northern Korea:

Soviet control, both direct and indirect, of northern Korea's economic potential has little immediate bearing on Soviet economic and military capabilities. The importance of USSR control of the comparatively well-developed industrial area north of the 38th parallel is not obvious unless viewed against a background of the USSR's position in the Far East.

The Soviet Union, now has intensified interests in the Far East. The great land-mass of China is under control of a govern-

* It is difficult to translate this into dollars, because of Russian fiscal practices. Under the Soviet system a satellite sells its production to the Soviets for Rubles 5 to the Dollar, but must buy Soviet products at Rubles 15 to the Dollar.

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-15-

ment which has declared allegiance to Soviet aims and methods.

An industrial capacity to supply the expanding needs of a developing China becomes a necessity for the furtherance of Communist ultimate aims in the Far East. The industrial capacity of the Soviet Far East (east of Lake Baikal) is relatively small. Northern Korea is capable of supplementing Soviet industrial production in the important fields of chemicals, iron and steel, hydroelectric power, and light metals manufacture. The 9 million inhabitants of northern Korea represent an important factor in the manpower deficient Soviet Far East. The northern Korean people are not on a comparable literacy level with the people of Soviet Union, but an estimated 30% have at least a grammar school education and thus are more susceptible to technical training than are most other peoples of the north-east Asia area.

Northern Korea, under Russian supervision and direction, is in a position at present to contribute directly to Soviet economic needs in developing the Asiatic mainland.